EBRI

T-42

Statement on

Coverage Under Employer-Sponsored Plans

Before the U.S. House of Representatives
Committee on Education and Labor
Subcommittee on
Labor-Management Relations

Hearings on Employee Benefits and
the Need for a National Retirement Income Policy
March 21 and April 2 and 3, 1985

of

Emily S. Andrews
Research Director
Employee Benefit Research Institute

Emily S. Andrews earned her Ph.D. in economics from the University of Pennsylvania. Before joining EBRI she held policy research positions at the Social Security Administration and the U.S. Department of Labor.

Summary of Statement of Emily S. Andrews
Research Director, Employee Benefit Research Institute

Who is Covered by Employer-sponsored Retirement Plans?

Coverage and vesting are broadly based. Most nonfarm employees work for an employer who sponsors some type of pension or retirement plan; 56 percent of 88 million nonfarm workers said they were covered under a plan. Many of these workers expect to receive benefits at retirement. Of the 50 million covered workers, 22 million or 45 percent are eligible for a pension. Another 6 million, or 13 percent of covered workers, expect to receive a lump-sum distribution from their plan when they leave their job. Employees who expect either type of vested benefit sum to 58 percent of covered workers.

Most covered workers earn relatively modest salaries. This finding seems contradictory since coverage rates increase with earnings. However, over 76 percent of all covered employees and 70 percent of all vested employees earn less than $25,000 a year.

Workers are more likely to be vested as they reach retirement age. Among workers age 60 to 64, 70 percent in the private sector have vested benefits and 88 percent of government workers are entitled to a pension or a lump sum distribution from their current job. Coverage from previous employment could increase retirement income. However, most employees (71 percent) spend lump sum distributions they receive before retirement instead of saving them.

Who is Not Covered by Employer-sponsored Plans

Noncovered workers can be sorted into five categories. Fifteen percent of noncovered workers are self-employed. These workers appear to reinvest their savings in their own businesses instead. Three percent of noncovered workers are in agriculture. These workers are seasonal and have a number of other employment problems. Twenty-seven percent of noncovered workers are under age 25 or age 65 and over. Through the Retirement Equity Act (REA) employers will have to include 583,000 additional younger employees in their pension plans. Only time will tell whether more young workers will seek employers who provide pensions.

Workers without coverage who were on the job less than a year or who usually worked less than 1,000 hours account for another 20 percent of all noncovered workers. Those who met all 1983 ERISA participation standards make up the remaining 34 percent of all noncovered workers. They represent 16 percent of total employment.

Noncovered workers meeting ERISA participation standards (or who could expect to meet those standards) are different from those who are covered. Noncovered workers are more likely to work in small firms with fewer than 100 employees (68 percent compared to 17 percent). They are less likely to work under a union contract (10 percent compared to 38 percent). Noncovered workers also tend to have lower earnings and shorter job tenure.

Although individual retirement accounts were initially established through ERISA to help noncovered workers fill their pension gap, only 12 percent of noncovered workers contributed to an IRA in 1982 compared to 17 percent of all nonfarm employees.

Recent Trends in Employer-Sponsored Coverage

To evaluate the coverage issue, we need to know how coverage has changed over the past few years. The coverage rate fell between 1979 and 1983 among nonfarm workers from 61 percent to 56 percent. Declines took place among both private sector and government employees. Over the same period the relative fraction of covered workers who are women has increased.

Declining coverage rates may have been caused by the 1982 recession and generally poor economic conditions. An analysis by industry of workers meeting ERISA participation standards in 1983 shows the composition of the decline in greater detail. Some industries, like durables manufacturing, had losses in employment and in pension coverage. Others showed little change in employment and little if any coverage expansion. By contrast employment and coverage increased in the service sector and coverage rates remained relatively unchanged.

Economic expansion since the May 1983 survey may have produced renewed growth in coverage. Other evidence suggests that coverage may have been affected by post-ERISA legislation such as ERTA and TEFRA. Statistics for 1984 and 1985 are needed to determine whether legislative change has reduced coverage growth. Few analysts are forecasting the type of robust growth in pension coverage experienced before 1979.

Coverage rates fell for both men and women. But declining coverage affected men to a greater extent. The number of women workers grew between 1979 and 1983 while the number of men shrank. As a consequence, 39 percent of covered workers were women in 1979 compared to 42 percent in 1983. The coverage rate for women is still lower than that for men, however.

What Influences Pension Coverage?

Whether an employee has employer-sponsored coverage depends on the characteristics of the workplace and characteristics of the employee. A statistical analysis undertaken by EBRI shows that four factors more closely related to the employee-- age, hours of work, job tenure and wages -- account for 32 percent of the variation in coverage. Industry differences account for another 17 percent of the variation.

The major difference in coverage rates stems from only two sources -- firm size and unionization. Large firms, whether or not unionized, usually have pension plans. The coverage rate for firms with more than 500 employees is 82 percent. That for firms with fewer than 100 employees is 23 percent.

The coverage rate for private sector employees under a collective bargaining agreement is 82 percent; that for nonunionized employees is 44 percent. Small firms that are unionized are more likely to provide coverage than small nonunionized firms.

These figures suggest that if policies could be divised which would increase the extent of coverage among small firms, many more workers would qualify for pension benefits at retirement. EBRI simulations show that if firms with fewer than 100 workers were as likely to have a pension plan as firms with 100 to 500 workers, 7.6 million more employees would be covered; of these, 3.6 million would be vested.

The challenge is to devise policies to encourage expanded coverage without producing adverse indirect effects on workers or firms. I hope the information we have provided can help you meet that challenge.

CONTENTS

TABLES

CHARTS

STATEMENT

INTRODUCTION

Mr. Chairman, my name is Emily Andrews. I am research director at the Employee Benefit Research Institute (EBRI). I am pleased to appear before this Subcommittee during its consideration of the need for a national retirement income policy.

One of the issues you have raised is the extent to which a national retirement income policy should address the issue of pension coverage. To aid the Congress in its considerations on this subject, I would like to provide some information based on a survey of individuals sponsored by EBRI and the U.S. Department of Health and Human Services in May 1983. This survey provides the most comprehensive information on coverage available.

I plan to discuss four topics in my testimony today:

- Who is covered by employer-sponsored retirement plans;
- Who is not covered by employer-sponsored plans;
- Recent trends in employer-sponsored coverage; and
- What influences pension coverage.

EBRI was formed in 1978 as a non-profit, non-partisan, public policy research organization to conduct research and educational programs. EBRI is committed by charter to the premise that the nation is served in social and economic terms by the existence of employee benefit programs. We are aware that there may be limits to what can and should be provided. Consequently, EBRI undertakes to provide studies and statistics that will allow informed priority decisions to be made upon assessment of documented costs and benefits.

My comments today are set within this framework. They should not be construed as endorsing any particular policy to encourage or discourage coverage under employer-sponsored retirement plans.

WHO IS COVERED BY EMPLOYER-SPONSORED RETIREMENT PLANS

Pension coverage is widespread throughout the labor force.[1] Most nonagricultural wage and salary workers report working for an employer who sponsors some type of pension or retirement plan. This concept is generally referred to as pension coverage. In 1983, 56 percent of the 88 million nonagricultural wage and salary workers reported coverage under an employer-sponsored plan.

Another labor force group of relevance to the Congress consists of nonagricultural employees age 25 to 64 working 1000 hours or more who have worked on their jobs for at least a year. This group is called the "ERISA" work force because the workers meet ERISA standards for plan participation. The "ERISA" workforce is more likely to build up meaningful employment-based pensions at retirement. The coverage rate for these 56 million employees reached 70 percent in May 1983.

Many covered workers, whether or not they are in the "ERISA" workforce, expect to receive benefits at retirement. Of the 50 million covered nonagricultural wage and salary workers, 22 million or 45 percent said they would be eligible for a pension. Another 6 million, or 13 percent of covered workers, expect to receive a lump-sum distribution from their plan when they leave their job. Employees who expect either type of vested benefit -- a pension or a lump sum distribution -- sum to 58 percent of covered workers.

Those workers who comprise the "ERISA" workforce are even more likely to be vested in a pension plan. Of the 38 million covered workers in the "ERISA" workforce, 53 percent expect a pension when they reach retirement. Another 3 million workers expect to receive a lump sum distribution. This boosts the total vesting rate for the "ERISA" work force to 67 percent.

Coverage and Earnings

One of the primary public policy objectives in providing tax advantages to employer-sponsored plans has been to ensure that these benefits reach employees across the income spectrum. Employer-sponsored pensions are focused on workers in the middle of the earnings distribution.

Most studies have noted that the coverage rate increases strongly with earnings. Although the majority of workers in the middle of the earnings distribution are covered under a pension plan, coverage rates increase gradually from 58 percent for those earning between $10,000 and $14,999 to 79 percent for those earning between $20,000 and $25,000. Coverage rates approach 85 percent for those earning $50,000 and over.

Another way to examine the distribution of employees entitled to pension benefits is through statistics on the cumulative distribution of employment and coverage by earnings groups. Nearly 83 percent of all nonagricultural wage and salary workers earn less than $25,000 (table 1). Pension coverage and vesting follow this pattern with 76 percent of covered workers and 70 percent of those vested earning less than $25,000 yearly. This broad base of pension coverage and vesting is frequently obscured when differences in coverage rates between earnings groups are emphasized.

TABLE 1

EMPLOYMENT, COVERAGE AND VESTING:
CUMULATIVE DISTRIBUTION
FOR NONAGRICULTURAL WAGE AND SALARY WORKERS
ACROSS EARNINGS GROUPS*, MAY 1983

	Cumulative Distribution across Earnings Groups		
	Employment	Coverage	Vesting
Total Employees (000s)	88,214	49,530	28,708
less than $5,000	12.5	5.1	1.3
less than $10.000	31.6	17.3	8.6
less than $15,000	53.8	39.1	28.5
less than $20,000	70.0	59.0	49.8
less than $25,000	82.8	76.2	70.2
less than $30,000	89.8	85.4	81.2
less than $50,000	98.0	97.1	96.0
Total Earnings	100.0%	100.0%	100.0%

*Percentages exclude 9.0% of employees whose earnings are not reported.

Coverage and Age

Workers are more likely to become vested as they reach retirement age. Among nonagricultural wage and salary workers age 60 to 64, 70 percent in the private sector have vested benefits and 88 percent of government workers are entitled to a pension or a lump sum distribution from their current job. Government workers are much more likely to expect only a lump sum distribution, however. Even among those workers age 60 to 64 years of age, 12 percent of government workers expect to receive only a lump sum distribution compared to 5 percent of employees in the private sector.

Coverage from previous employment could also increase retirement income. In 1983, 18 percent of the "ERISA" workforce, or about 10 million employees reported coverage under an employer-sponsored pension on an earlier job. About 6.6 million had either cashed out their benefits through a lump-sum distribution or were entitled to retirement benefits.

Over 70 percent of all employees receiving preretirement cash outs spent these distributions instead of saving them (table 2). The uses individuals make of preretirement distributions are strongly affected by the amount of the cash out. Eighty-seven percent of those receiving over $20,000 saved their retirement funds. Only 26 percent of those receiving less than $5,000 added these distributions to their savings. In sum, a substantial portion of benefits provided by employer-sponsored plans before retirement are never translated into retirement income.

7

Table 2

The Use of Preretirement Lump-Sum Distributions
by Purpose and Amount
(as Reported May 1983)

	Total	less than $5,000	$5,000 - $9,999	$10,000 - $19,999	Over $20,000
TOTAL RECIPIENTS[a] (000's)	6,594	5,533	583	218	154
Percent Distribution[a]	100.0%	84.2%	8.9%	3.3%	2.3%
ALL USES[b]	100.0%	100.0%	100.0%	100.0%	100.0%
Total Saving	32.0%	26.0%	57.6%	78.9%	87.3%
Retirement Program	4.4	2.4	*	*	*
Insurance Annuity	*	*	*	*	*
Housing Purchase	10.1	9.3	12.5	*	*
Other Investment	16.8	14.0	29.9	45.9	*
Total Consumption	71.4%	76.6%	51.9%	42.6%	*
Car Purchase	4.8	4.8	*	*	*
Vacation	3.2	3.1	*	*	*
Other Use	63.4	68.7	40.9	*	*

a Recipients by lump sum amount are less than total recipients and percentages are less than 100 percent because of the omission of "don't know" and "no response" to the survey question on the value of the lump-sum distribution.

b Percentages may add to over 100 percent because recipients may have used lump sum distribution in more than one way.

* Number of workers too small for rates to be calculated reliably.

WHO IS NOT COVERED BY EMPLOYER-SPONSORED PLANS

Not all workers are covered by an employer-sponsored plan. Noncovered workers can be sorted into five categories (chart 1). Fifteen percent of non-covered workers own their on businesses. These self-employed workers can provide retirement protection for themselves and their employees through Keogh plans and individual retirement accounts. The most frequent explanation for low rates of pension coverage among the self employed is that they reinvest their excess funds in their own businesses.

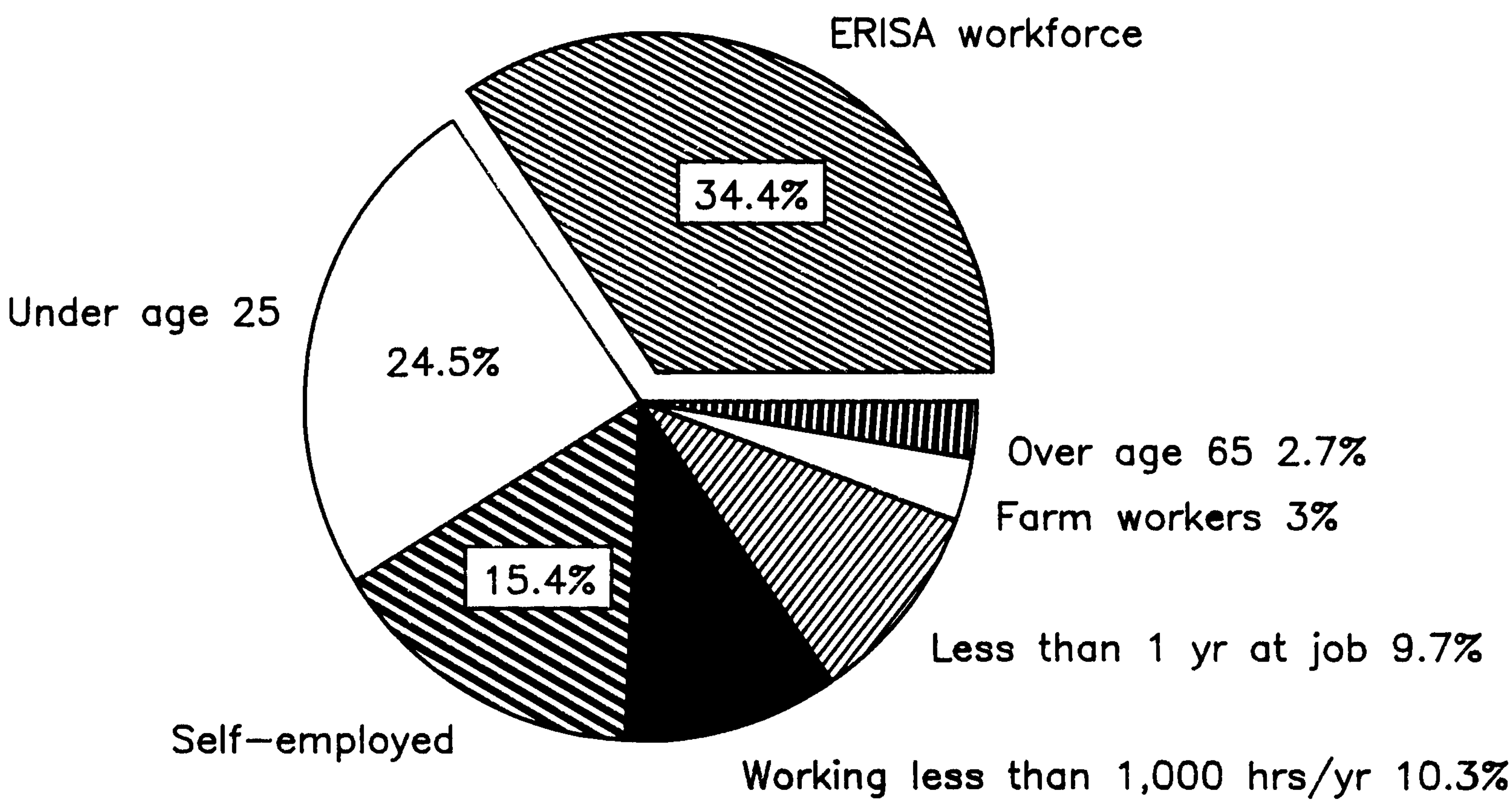
Three percent of noncovered workers are in agriculture. Their coverage rate is the lowest of all noncovered groups at just over 10 percent. Many agricultural employees are low-wage seasonal workers, employed on more than one farm. They frequently face a complex set of other labor market problems.

Nearly 25 percent of all noncovered workers in 1983 were under 25 years of age. This age group was not subject to ERISA particiption standards according to the 1974 law. Young workers are more likely to have short years of service and to work part-time schedules. EBRI has estimated that lowering the minimum age standard through the Retirement Equity Act will mean that sponsoring employers will have to include an additional 583,000 young employees in their pension plans.[2] Only time will tell whether many more young workers will seek employers who provide pension plans as well.

Workers 65 years of age an older are also a special case; 2.7 percent of all noncovered workers fall in this group. ERISA states that defined benefit plans may exclude all new employees within 5 years of normal retirement age. Furthermore, benefit accruals generally only continue to the normal retirement age (usually age 65).

Chart 1

Percent Distribution of Employees Lacking Pension Coverage Across Employment Categories, May 1983



Note: "ERISA workforce" consists of all employees not included in other categories (employees meeting ERISA participation standards).

Workers without coverage who were on the job less than a year or who usually worked less than 1,000 hours accounted for another 20 percent of all noncovered workers. ERISA standards state that pension plans only need credit a year of service to employees who work 1,000 hours or more under the plan.

Those workers meeting all 1983 participation standards made up the remaining 34 percent of all noncovered workers. But, they only represent 16 percent of total employment. A more generous definition of the core of the coverage problem in 1983 would include workers who met all the 1974 ERISA participation standards except for job tenure. Most of these workers will become part of the ERISA work force if they remain on their job for a year. In this case -- which we will call the "near-ERISA" workforce-- the core coverage problem consists of 21 million workers or 21 percent of the labor force.

Characteristics of Noncovered Workers

Noncovered workers in the "near-ERISA" work force differ from those who are covered (table 3). Noncovered workers are much more likely to work in small firms with fewer than 100 employees (68 percent versus 17 percent of covered workers). They are less likely to work under a union contract. Noncovered workers also tend to have lower earnings and shorter job tenure. About 35 percent of noncovered "near-ERISA" workers earn less than $10,000, compared to only 10 percent of all covered workers.

Many of the noncovered workers employed by small firms also have low incomes. Thirty-seven percent of all noncovered workers in firms with fewer than 100 employees earn less than $10,000, and 72 percent of all low-income

TABLE 3

THE DISTRIBUTION OF COVERED AND NONCOVERED WORKERS
IN THE "NEAR-ERISA" WORKFORCE
AGES 25 THROUGH 64 WORKING 1000 HOURS OR MORE
BY SELECTED CHARACTERISTICS, MAY 1983

	Covered Workers (000's)	Distribution Across Groups	Workers Not Covered[a] (000's)	Distribution Across Groups
FIRM SIZE[b]				
Less than 100 employees	6,215	17.4%	12,352	68.1%
100 to 499 employees	5,545	15.6	2,465	13.6
500 or more employees	23,869	67.0	3,314	18.3
Total	40,702	100.0	20,894	100.0
UNION STATUS				
Union	15,223	38.2	2,163	10.6
Nonunion	24,627	61.8	18,155	89.4
Total	40,702	100.0	20,894	100.0
EARNINGS[d]				
Less than $10,000	4,107	10.4	6,711	34.6
$10,000 to $24,999	24,545	62.1	10,374	53.5
$25,000 or more	10,866	27.5	2,309	11.9
Total	40,702	100.0	20,894	100.0
AGE				
Less than 35	14,588	35.8	9,095	43.5
35 and over	26,133	64.2	11,800	56.5
Total	40,702	100.0	20,894	100.0
HOURS				
Less than 2000	7,525	18.5	5,481	26.2
2000 and over	33,176	81.5	15,413	73.8
Total	40,702	100.0	20,894	100.0
SEX				
Women	16,335	40.1	9,932	47.5
Men	24,367	59.9	10,963	52.5
Total	40,702	100.0	20,894	100.0
TENURE[e]				
Less than 5 years	10,613	28.0	8,328	51.3
5 to 9 years	9,734	25.7	3,958	24.4
Ten years and over	17,518	46.3	3,830	23.6
Total	38,017	100.0	16,116	100.0

[a]Includes workers with no coverage, workers who do not know whether they have coverage and workers with no coverage information reported.

[b]Percentages exclude 12.7 percent of employees for whom firm size is not known.

[c]Includes workers who are not covered by a union contract, workers who do not know whether they are covered under a union contract, and workers with no reported information on unionization.

[d]Percentages exclude 4.4 percent of employees whose earnings are not reported.

[e]Total excludes 11.2 percent of employees who have worked at their current job for less than one year, doesn't include d/r.

SOURCE: Preliminary tabulations of EBRI/HHS May 1983 CPS pension supplement.

workers without coverage are employed by small firms. Nonetheless, 7 million workers or 63 percent of noncovered workers in small firms earn $10,000 or more.

The Use of Individual Retirement Accounts

ERISA instituted individual retirement accounts (IRAs) as a means of saving for retirement.[3] Contributions could be made to these accounts on a tax deferred basis until retirement age. About 4.4 percent of eligible noncovered nonagricultural wage and salary workers took advantage of this option in 1978.

The 1981 Economic Recovery Tax Act (ERTA) expanded IRA participation to virtually all workers. While it is not clear whether the wider visibility of IRAs led to greater IRA usage among noncovered workers, their IRA participation rate for 1982 rose to 12.3 percent of all noncovered employees. The 17 percent IRA participation rate for all nonfarm employees in 1982 was higher than that for noncovered workers. Lower use rates may simply be a result of lower earnings among noncovered workers. IRA usage among noncovered workers is certainly not higher than average, however.

IRA usage among covered workers may be boosted by the availability of payroll deduction plans and employer-sponsored IRAs. When IRAs are offered at the workplace, more employees take advantage of this option than otherwise. Usage among private nonagricultural wage and salary workers at 27 percent is higher that the 15 percent rate posted by employees whose employer does not offer an IRA.

RECENT TRENDS IN EMPLOYER-SPOSORED COVERAGE

Between 1979 and 1983, two trends in coverage are apparent. The first is the overall decline in the coverage rate among nonagricultural wage and salary workers from 61 percent in 1979 to 56 percent in 1983. Declines took place among both private sector and government employees (chart 2). This trend is emerges from other statistics as well. Another monthly measure of the prevalence of pensions among employees was collected by the Census Bureau between 1979 and 1983 as part of the March supplement to the Current Population Survey for all persons employed at any time during the previous year. It indicates gradual reductions in the number of workers who have been participants in a pension plan for each and every year. (Participants are workers whose employer sponsors a plan and who are included in that plan.)

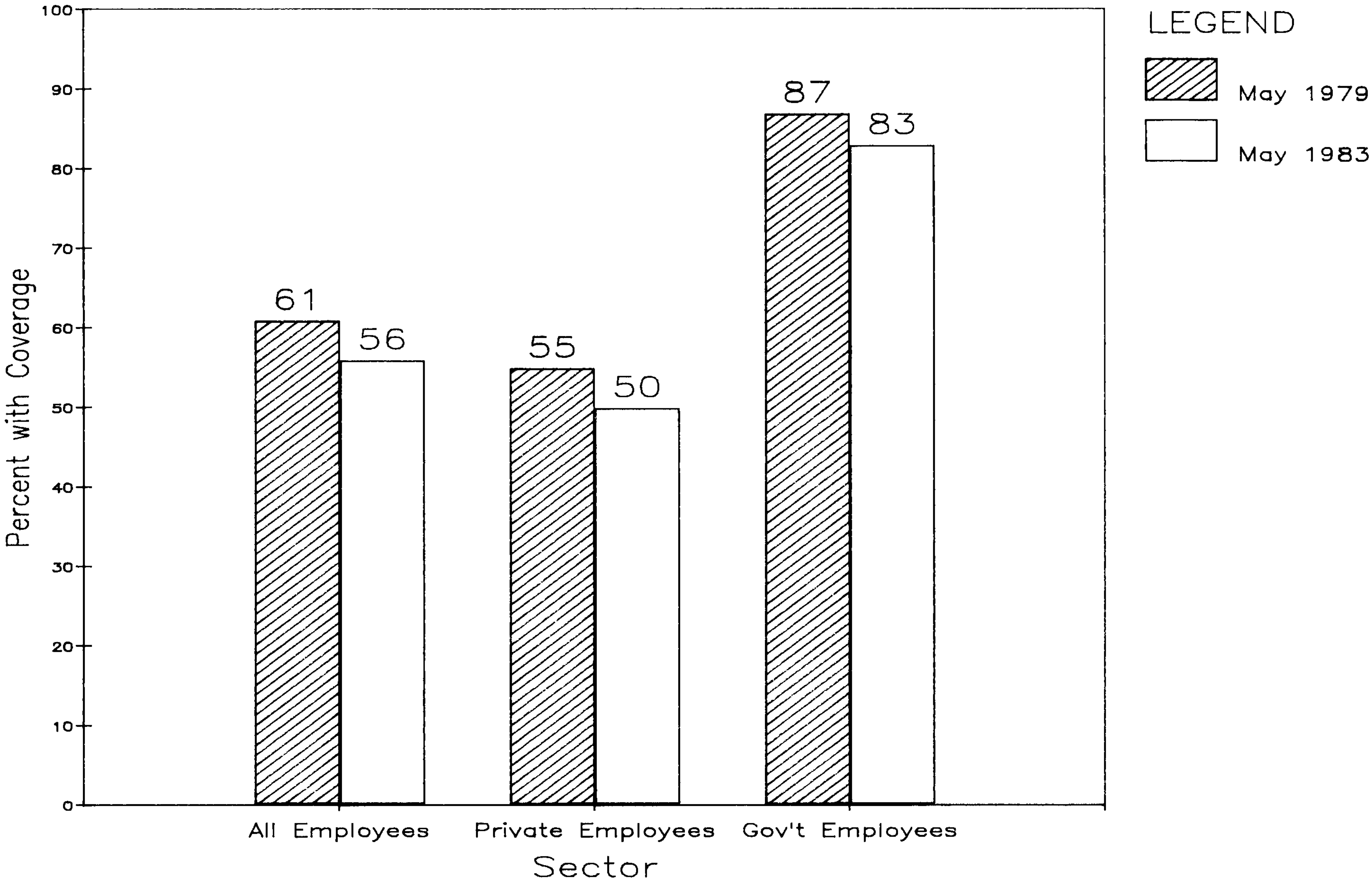
The second trend is the increase in the relative proportion of women among covered workers. Although coverage rates fell for both men and women, declining coverage affected men to a greater extent. The number of women workers grew between 1979 and 1983 while the number of men shrank. As a consequence, 42 percent of covered workers were women in 1983 compared to 39 percent in 1979. The coverage rate for women (52 percent) is still lower than that for men (59 percent).

Industrial Changes and Pension Coverage

The severe 1982 recession and generally poor economic conditions may well have caused declining pension coverage rates between May 1979 and May 1983. Pension coverage rates will fall if employment losses are driven by

Chart 2

Percent of Non-Farm Workers with Pension Coverage, by Sector, May 1979 and May 1983



layoffs in large unionized firms; and postrecessionary pension coverage will rebound. Employment losses resulting from permanent separations in large unionized firms will also lead to falling coverage rates. These losses will not be made up, however. Pension coverage rates may also fall in industries with employment growth if employers postpone establishing new pension plans.

Older industries appear to have been strongly affected by layoffs and permanent separations. The proportion of employees working for large firms decreased and unionization declined. Employers may have postponed establishing new plans in the service sector during the recession causing coverage growth to stagnate.

Declines in employment during the 1982 recession reinforced many of the long-term shifts away from certain sectors of durables manufacturing. Some nondurable goods manufacturing industries, such as chemicals and apparel, also suffered employment losses during the 1982 recession. In many cases the number of covered workers was reduced and coverage rates fell. Employment and pension coverage in the service-producing industries expanded between 1979 and 1983, however. In some sectors, the number of covered workers did not keep pace with employment growth and coverage rates fell. In other sectors, including professional services and financial services, coverage expanded at about the same pace and rates remained relatively constant.

Economic expansion since the May 1983 survey may have produced renewed growth in coverage. But new statistical evidence on plan growth also suggests that coverage may be affected by post-ERISA legislation such as Economic Recovery Tax Act (1981), Tax Equity and Fiscal Responsibility Act (1982), the Tax Reform Act of 1984 and the Retirement Equity Act (1984). The Census Bureau's March statistics on participation for 1984 and 1985 are needed to help determine whether legislative change has reduced coverage growth. These will not be available until late 1985 and late 1986, however, because of interview and processing schedules. Until the evidence proves otherwise, few analysts are forecasting the type of strong growth in pension coverage experienced before 1979.

Changes in Coverage for Women

Continuing concern about the low retirement income received by many older women today was one of the factors which led to the passage of the 1984 Retirement Equity Act. Lower coverage and vesting rates for women were cited as reasons for legislation. Among nonagricultural wage and salary workers in 1983, 59 percent of all men were covered by a pension plan compared to only 52 percent of all women. About 50 percent of all men covered by a pension plan were entitled to benefits at retirement compared to 38 percent of women. While these figures are higher for the "ERISA" workforce, significant gaps in coverage and expected benefit receipt remain. But these gaps have been closing slowly.

The one constant development for women in the workplace over the past 10 years has been that of change. The percentage of women 20 years of age and older working at paid employment grew by nearly 10 percentage points from 43 percent in 1970 to 53 percent in 1983. These gains occurred while the male labor force participation rate gradually declined with increasing college enrollment and earlier retirement. Women make up a larger and larger proportion of the workforce and more women work full-time schedules.

Despite the 1982 recession, women made considerable employment gains between May 1979 and May 1983. An additional 3.3 million women were employed as nonagricultural wage and salary workers. By contrast, male employment edged downward by 278,000 employees in response to the most severe recession since World War II.

Women's employment gains were translated into improvements in coverage and vesting. The number of female wage and salary earners covered by a pension plan increased by 660,000 workers, while the number of women entitled to future retirement benefits jumped by 1.2 million as more women accrued the necessary years of service to qualify for vesting.

WHAT INFLUENCES PENSION COVERAGE?

Whether an employee has employer-sponsored coverage depends on the characteristics of the workplace and the characteristics of the employee. As we have seen, some workers are more likely than others to be covered by an employer-sponsored plan. A number of statistical techniques are available which show the impact of differences in one factor from the effects of other related factors. We have used one technique called "analysis of variance" to determine which characteristics are the most important determinants of differences in pension coverage among private sector employees. According to a specification which determines the independent effect of each set of characteristics, those factors related to ERISA participation standards--age, hours of work and job tenure--were found to explain 16 percent of the variation in pension coverage among employees. Differences in wage rates were found to explain 16 percent of the variation and industry differences explained 17 percent.

By contrast, firm size combined with the effect of unionization at different firm size explains 52 percent of the variation in coverage. Eighty-two percent of private sector employees working for firms with more than 500 employees have pension coverage. This drops to 23 percent in small firms employing 99 or fewer workers. The coverage rate for private sector employees under a collective bargaining agreement is 82 percent; that for nonunionized employees is 44 percent (chart 3).

Small, nonunionized firms are less likely to establish pension plans. Simple statistics also can be used to demonstrate this fact as well. Less than 10 percent of workers in firms with less than 100 employees are unionized. Seventy-two percent of unionized workers in firms with less than 500 employees are covered by a pension plan, compared to only 28 percent of nonunion workers in such firms. The difference in coverage between unionized and nonunionized firms diminishes as the size of the firm increases. In the case of larger corporations, the difference is quite small. The most likely explanation for the effect of unionization on coverage is the ability of multiemployer plans to bring economies of scale into pension investment and administration.

The Potential Effect of Policy Changes

EBRI statistics suggest that if policies could be devised which would increase the extent of coverage among small firms, many more workers would qualify for pension benefits at retirement. If firms with fewer than 100 workers were as likely to have a pension plan as firms with 100 to 500 workers, 7.6 million more employees would be covered; of these 3.6 million

Chart 3

Percent of Non–Farm Private Employees with Pension Coverage, by Firm Size and Unionization, May 1983

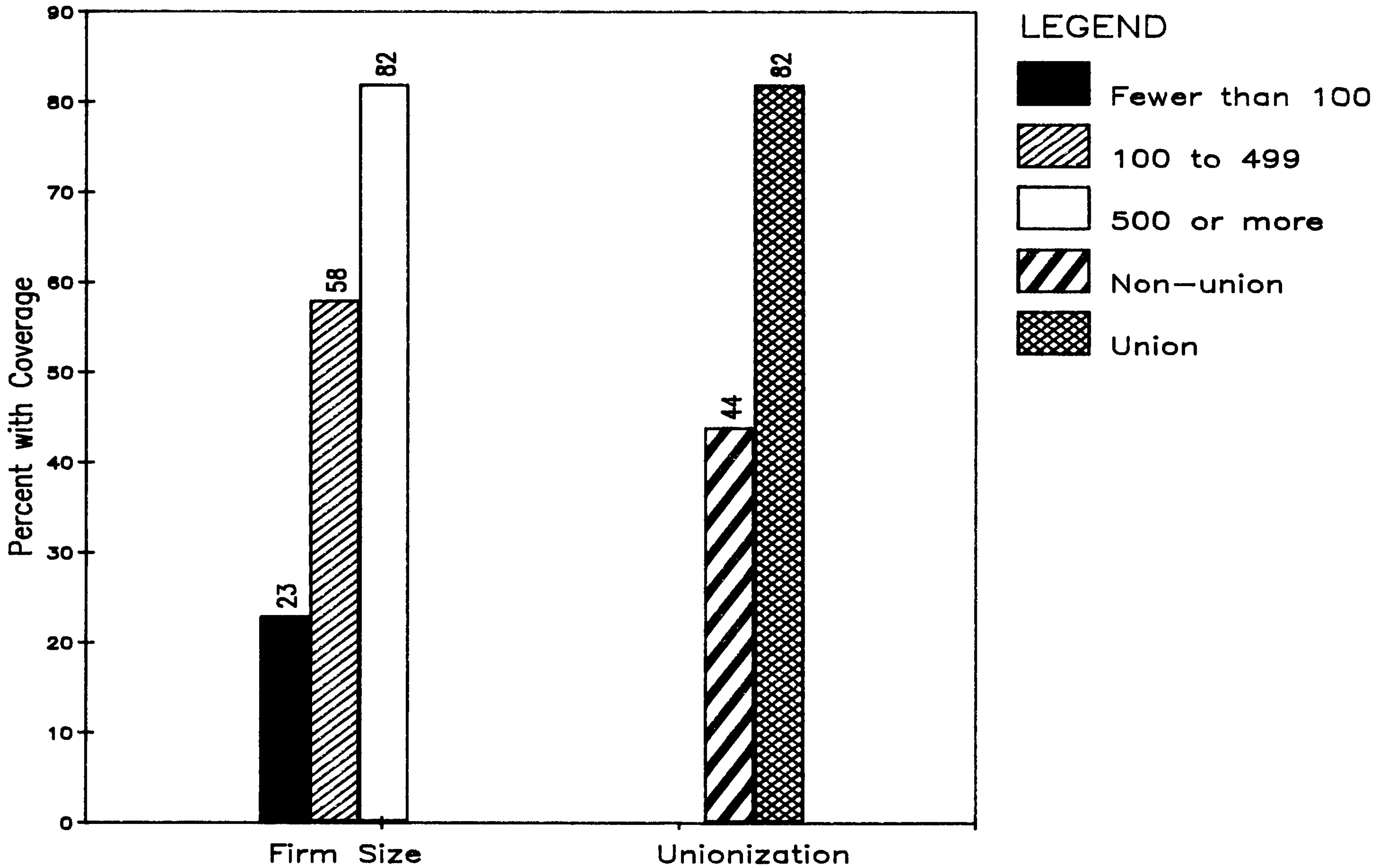


Table 4

Estimated Changes in Coverage, Participation and Vesting
if Smaller Firms Provided Coverage
to the Same Extent as Larger Firms
1985

If Firms with Fewer Than 100 Workers Had[a] Coverage Rates of Firms with 100 to 500 Workers	
Increased numbers of Older Workers (000's)	
Covered Workers	7,575
Participants	4,738
Vested Workers	3,575
If Firms with 100 to 500 Workers Had[b] Coverage Rates of Firms with over 500 Workers	
Increased numbers of[d] Older Workers (000's)	
Covered Workers	2,248
Participants	1,298
Vested Workers	837

[a]Estimates of increase in coverage for firms with less than 100 workers based on a simulated increase in the rate of covered workers to employees from 28.8 to 51.0 percent. The ratio of participants to covered workers declines from 75.5 to 69.9 percent in the simulation and ratio of vested workers to participants increases from 74.2 to 74.7 percent. These changes are applied to imputed data on pension status to best represent actual numbers of participants and vested workers in 1983. These figures are brought forward to 1985 by assuming a 10.0 percent gain in employment over the 1983 simulation.

[b]Estimates of increase in coverage for firms with 100 to 500 workers based on a simulated increase in the rate of covered workers to employees from 62.6 to 82.9 percent. The ratio of participants to covered workers declines from 74.8 to 70.6 percent in the simulation and ratio of vested workers to participants declines from 72.6 to 71.0 percent. These changes are applied to imputed data on pension status to best represent actual numbers of participants and vested workers in 1983. These figures are brought forward to 1985 by assuming a 10.0 percent gain in employment over the 1983 simulation.

would be vested (table 4). If firms with 100 to 500 employees were as likely to have a pension plan as firms with over 500 workers, there would be 2.2 million more covered workers and 837,000 more vested workers. These estimates are based on ERISA participation standards before the Retirement Equity Act. REA changes in participation would increase vesting in small plans even more as some workers under age 25 would be vested.

If increased coverage could be obtained it would be a more effective way to increase pension receipt than many other policy options being discussed. For instance, increasing coverage among plans with fewer than 100 workers would add 92.7 percent more vested workers than five-year vesting. Five-year vesting would include more additional vested workers than a combination of expanded participation options including the recently enacted Retirement Equity Act, proposals to include more part-time workers and proposals to include older workers within 5 years of retirement. If the likelihood of coverage among firms with 100 to 500 workers could increase to that of the largest firms, the number of new vested workers would virtually equal the effect of a shift to seven-year vesting.

This does not imply that issues other than coverage are not important. There has been recent policy interest in other areas covered by ERISA such as post-65 accruals,[5] vesting standards[6] and pension integration. Nonetheless, effective policy to improve coverage would increase pension protection to the greatest extent. The issue, of course, is how could even a partial shift be accomplished.

IRAs were the first suggestion. They have not substantially increased coverage among noncovered workers. Another suggested remedy to increase coverage in small firms was the mandatory pension system proposal made by the

President's Commission on Pension Policy. According to that proposal all employers would have to contribute a minimum of 3 percent of payroll onbehalf of all employees over the age of 25 with one year of service and 1,000 hours of employment. Objections to this proposal ranged from concerns about market regulation and individual choice to concerns about the potential negative effects on the economy, in general, and on small businesses in particular. Additionally, it was pointed out that this would only have helped the 34.4 percent of noncovered persons residing in the ERISA workforce (see Chart 1).

The challenge is to devise policies to encourage expanded coverage without producing adverse indirect effects on workers or firms. The Congress will have to decide what level of retirement program coverage it thinks is desirable, and feasible, and at what price to employers, employees, and the federal government. I hope the information we have provided can help you meet that challenge.

NOTES

1. See "New Survey Findings on Pension Coverage and Benefit Entitlement," EBRI Issue Brief 33, August 1984.

2. See "Impact of Retirement Equity Act," EBRI Issue Brief 39, February 1985.

3. See "Individual Retirement Accounts: Characteristics and Policy Implications," EBRI Issue Brief 32, July 1984.

4. Scale economies in multiemployer plans are explored in Olivia S. Mitchell and Emily S. Andrews, "Scale Economies in Private Multi-Employer Pension Systems," Industrial and Labor Relations Review 34 (July 1981): 522-530.

5. See "Pension Accruals for Older Workers," EBRI Issue Brief 35, October 1984.

6. A more extensive discussion of the impact of various policy proposals, including quicker vesting, will be found in Emily S. Andrews, The Changing Profile of Pensions in America (Washington, D.C.: EBRI, forthcoming 1985).